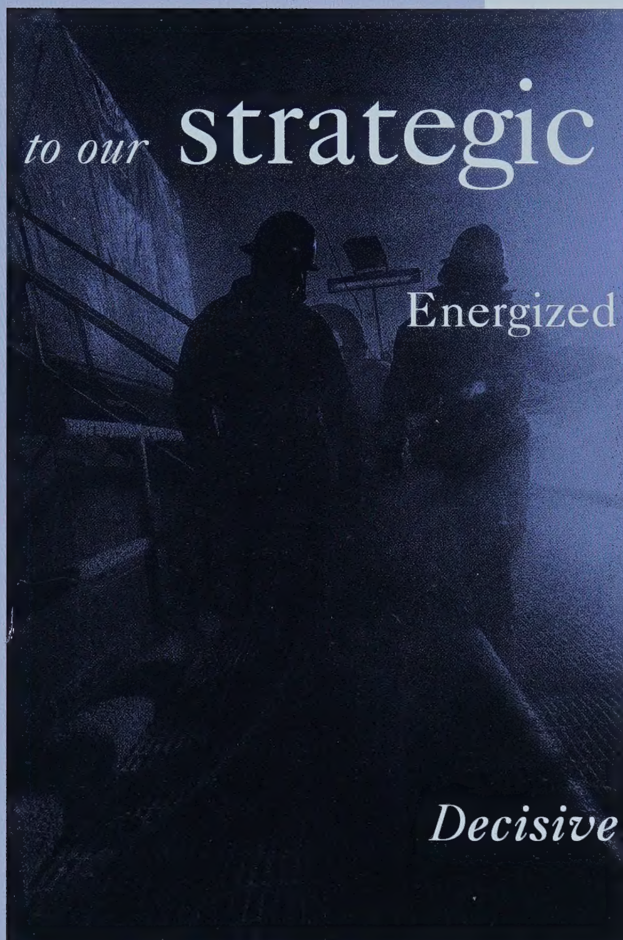
1995 annual report

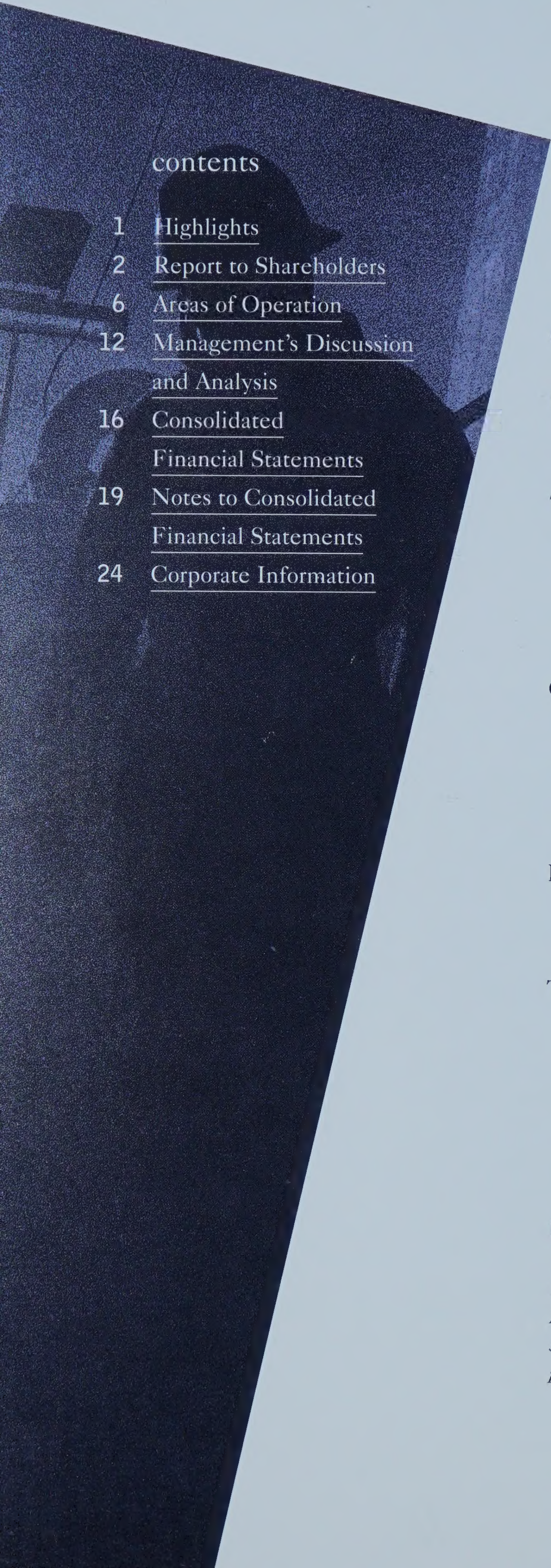


committed *to our* strategic plan

Energized in our approach

Decisive in our actions

ElkPointResourcesInc.



contents

corporate profile

Elk Point Resources Inc. is a growth-oriented emerging junior oil and gas company with headquarters in Calgary, Alberta.

The Company is engaged in *full-cycle exploration*, production and marketing of crude oil and natural gas as well as the *acquisition* and *enhancement* of oil and gas assets in western Canada.

Guided by the principles of integrity, empowerment, and continuous improvement, our mission is to be an innovative and profitable oil and gas company.

Elk Point's management team is committed to achieving strategic, managerial and technical excellence in the pursuit of *profitable* growth.

The Company's corporate philosophy embodies teamwork, communication, *commitment*, technical diligence, aggressive *implementation*, and a collaborative approach in dealing with industry partners and the service sector.

notice of annual meeting

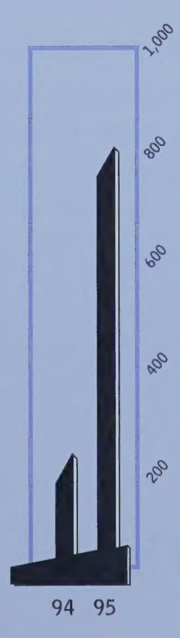
The Annual General Meeting of Shareholders will be held on Thursday, May 30, 1996 at 3:00 pm at the Calgary Petroleum Club, 319 - 5 Avenue S.W., Calgary. All shareholders and other interested parties are invited to attend.

highlights 1995

	1995	*1994*	*% Change*
financial *($)*			
Revenue net of Royalties	**4,373,733**	*1,549,942*	*+182*
Funds from Operations	**2,113,595**	*652,990*	*+224*
Per share	**0.08**	*0.04*	*+100*
Net Earnings	**368,595**	*124,990*	*+195*
Per share	**0.01**	*0.01*	–
Shares (Weighted Averages)	**26,270,882**	*17,319,302*	*+52*
Shares (Outstanding at Dec. 31)	**32,916,491**	*25,117,147*	*+31*
operating			
Crude Oil and NGLs Production (Bbls/d)	**123**	*61*	*+102*
Average Price ($Cdn/bbl)	**21.44**	*18.76*	*+14*
Natural Gas Production (Mcf/d)	**6,876**	*1,800*	*+282*
Average Price ($Cdn/mcf)	**1.35**	*1.64*	*–18*
Reserves (proven plus probable)			
Crude Oil and NGLs (Mbbls)	**1,551.7**	*242*	*+541*
Natural Gas (Bcf)	**24.2**	*16*	*+51*

funds from operations
($ thousands)

production
(BOE/d)



By year end, Elk Point had boosted its production to 1,200 barrels of oil equivalent per day. The Company's exploration initiatives in 1995 generated a notable light oil discovery at Huntoon which will be enhanced in 1996 by a horizontal drilling program. In the coming year, a multi-prospect exploration program will be pursued on an undeveloped land base of 78,000 net acres. These endeavours will be augmented with a portfolio of natural gas development projects and an active acquisition program.

We are **energized** in our approach and *decisive in our actions* as we pursue new growth opportunities.

Our exploration initiatives in southeastern Saskatchewan were rewarded with a notable new oil discovery.

A Year of Record Activity

Elk Point maintained a high activity level over the past year which translated into significant growth in our operating and financial results. The Company successfully implemented its growth strategy, drawing on the exploration expertise, project development skills and ingenuity of its management team.

Elk Point completed eight oil and gas acquisitions in 1995 including four in its core area at Saddle Hills. A low working interest, non-operated producing oil property was considered non-core and we successfully disposed of this asset at a price which enhanced shareholder value. Our exploration initiatives in southeastern Saskatchewan were rewarded with a notable new oil pool discovery from the Frobisher zone at Huntoon. We operate this project and hold a 100 percent working interest over the majority of the pool. A merger with Bellevue Resources Ltd. positioned Elk Point with a new exploration area at Pembina and 12 operated exploration prospects.We established four core areas of activity in 1995 pursuing light oil in southeastern Saskatchewan, longer life, medium depth, natural gas and light oil in the Peace River Arch and Pembina areas, and shallow natural gas in northeastern Alberta.

Elk Point exited the year with production rates exceeding 1,200 barrels of oil equivalent per day and continued to develop projects on its significant undeveloped land base. Our long term vision, definitive growth strategy and empowered management team create the synergy necessary to ensure continued profitable growth and expansion of our reserve and production base.

Operational Highlights

Elk Point's ability to operate the majority of its drilling activities was a key highlight of 1995. We participated in the drilling of 21 gross (12.7 net) wells in 1995. Nine gross (4.2 net) wells were cased as gas wells, five gross (5.0 net) were cased as oil wells and seven gross (3.5 net) were dry and abandoned. Elk Point was the operator of 16 of these wells.

report to shareholders

During the year, Elk Point expanded its operated Pinehurst central compression and gas gathering facilities and tied-in five shut-in gas wells to those facilities. At year end, a booster compressor was added at Pinehurst and three additional wells were placed onstream in February 1996.

At Huntoon, in southeastern Saskatchewan, Elk Point drilled and completed four oil wells with a 100 percent working interest. In 1996, we will build and operate a central oil battery, flowline and water disposal system on this property.

Exploration Success Drives Future Growth

Elk Point commenced its exploration activities primarily in the fourth quarter of 1995 with a low to medium risk drilling program. The Company targeted natural gas at Saddle Hills, Pinehurst, Craigend, Bat Lake and Amisk, and light oil in southeastern Saskatchewan. We achieved success in all areas, with the Huntoon Frobisher light oil pool discovery providing the most significant contribution to the Company's reserve and production base.

At Huntoon, Elk Point's four well drilling program increased production by 400 barrels per day. This operated light oil property can be developed using horizontal drilling technology which will enhance both the productivity and ultimate recovery of oil from the pool. We have identified two vertical and six horizontal drilling locations on our undeveloped lands on this prospect for development in 1996.

An aggressive exploration program is planned for 1996, targeting light oil on five exploration prospects in southeastern Saskatchewan, and natural gas on partially developed properties at Saddle Hills, Pembina, Pinehurst and Amisk.

Complementary Strategic Acquisitions

Complementing our exploration success, we pursued a strategic acquisition program aimed at enhancing our position in core areas at Saddle Hills and Spirit River in the Peace River Arch and at Pinehurst in northeastern Alberta.

At Saddle Hills, Elk Point increased its natural gas reserves through four acquisitions and partially financed these transactions by disposing of a low working interest producing oil property in the same area. At Spirit River, we acquired a producing oil property with a significant gas development opportunity as well as infill oil drilling potential.

At Pinehurst, Elk Point purchased three shut-in gas wells, two of which were tied into the existing Pinehurst gas gathering and compression system in early 1996.

Effective April 1, 1996, we acquired working interests ranging from 23 percent to 100 percent in four shut-in natural gas wells in the Saddle Hills area. Elk Point also increased its working interest from 30 percent to 70 percent in the operated Saddle Hills gas processing facility which commenced production in the second week of April 1996. The acquired property has natural gas reserves estimated at 8.25 Bcf net to the Company. In the same transaction, we acquired a 50 percent working interest in two oil wells and 320 net acres of lands at Huntoon. We plan to drill three horizontal wells on the acquired lands in the second quarter of 1996.

Corporate Development

On August 22, 1995, Bellevue Resources Ltd. became a wholly-owned subsidiary of Elk Point for a consideration of 4.5 million Elk Point shares. The net assets of Bellevue Resources Ltd. included approximately $1,000,000 of working capital, 37,000 net acres of undeveloped land in Pembina, Alberta and Montana, and production of 13 barrels of oil equivalent per day. At year end, Bellevue was amalgamated into Elk Point. As a result of this merger, Elk Point is positioned with a portfolio of operated drillable prospects and undeveloped land at Pembina, a new area where we will pursue exploration activity.

On November 30, 1995, Elk Point issued 3,300,000 million flow-through shares at a price of $0.47 per share, raising a total of $1,551,000 which was used to partially fund its exploration program.

On March 20, 1996, we entered into an agreement to issue 6.5 million Special Warrants at a price of $1.05 per Special Warrant to raise gross proceeds of $6,825,000. This private placement financing is scheduled to close on April 9, 1996 and the funds will be used to acquire and develop oil and gas assets in our core areas at Saddle Hills and Huntoon.

Marketing and Risk Management

The cornerstone of Elk Point's natural gas marketing strategy is a gas purchase contract with ProGas Limited for a volume of 11 million cubic feet per day. We will increase our sales under this contract in 1996 as additional gas wells are placed onstream. Sales under this ProGas contract provide Elk Point with exposure to higher gas prices in the Northeast and Midwest markets of the United States.

As part of our risk management strategy, Elk Point hedged 150 barrels a day of oil production for 1996 at $24.52 Cdn. per barrel. We subsequently hedged 100 barrels per day of oil production from March to December 1996 at $23.76 Cdn. per barrel.

Building on Our Financial Performance

During 1995, Elk Point recorded cash flow from operations of $2,113,595, a 224 percent increase from 1994. On a per share basis, cash flow rose to $0.08 in 1995 from $0.04 in 1994, representing a 100 percent increase. Net earnings increased 195 percent to $368,595 in 1995 versus $124,990 in 1994, while on a per share basis, net earnings were unchanged at $0.01. Revenue, net of royalties, rose to $4,373,733 in 1995 compared to $1,549,942 in 1994. Net capital expenditures for 1995 amounted to $7,711,097. Elk Point has budgeted a capital program of $11.7 million for 1996 to be funded from cash flow, a revolving production loan facility and an equity financing of $6.8 million.

Industry Environment

Natural gas prices languished in 1995 due to a warm winter and high storage inventories throughout North America. However, warm weather over the 1995

summer season in the United States increased demand for air conditioning and prevented U.S. buyers from refilling storage levels. Gas buyers entered the heating season of 1996 with storage levels seven percent below the previous year. An exceptionally cold winter in North America in early 1996 depleted storage in the eastern consuming regions of the U.S. and Canada, sending spot gas prices spiraling upwards. Storage levels in Alberta take longer to deplete, but will be substantially drawn down by the end of April 1996. As a result, the outlook for natural gas prices in 1996 is favourable, with high demand for storage gas anticipated over the summer months.

Crude oil prices were relatively strong in 1995 and strengthened in the first quarter of 1996 due to low heating oil inventories and cold weather in the United States. Prices are expected to experience slight downward pressure in the second half of the year in anticipation of Iraqi oil being brought onstream.

Activity levels of producers will be reduced by the ongoing consolidation of companies in the industry. Acquisition opportunities will increase for Elk Point as larger companies try to improve their balance sheets and effectiveness through asset dispositions. In this environment, our Company's ability to compete is enhanced by our pursuit of niche opportunities, use of strategic acquisition criteria and application of internal expertise in exploration, production, operations and marketing.

Outlook for 1996

The upcoming year will be monumental for Elk Point and its shareholders. Guided by a clear vision and successful strategy, we are positioned with significant growth opportunities at Saddle Hills and Huntoon.

Value-added activities will focus on our strengths in exploration, project development, asset acquisitions, production optimization and marketing. Elk Point will continue to enhance its creative environment by emphasizing empowerment and continuous improvement.

We are pleased with the exemplary interest and encouragement we have received from our shareholders and would like to thank you for your support. Elk Point would also like to welcome its new shareholders as a result of the Bellevue merger, the flow-through share issue and the recent Special Warrant private placement.

The ongoing guidance and active role of our Board of Directors has been a major factor in Elk Point's success to date and is acknowledged and appreciated. The appointments of Mr. Troy Brazzoni and Mr. Brian Goodfellow to Vice-President, Exploration and Vice-President, Production and Operations, respectively, recognizes their past and ongoing contributions to the Company's successful strategy and growth activities. Finally, I would like to thank Elk Point's team of dedicated professionals, support staff and consultants for their energy, skill, and commitment to building a dynamic and profitable oil and gas company.

Respectfully submitted on behalf of the Board of Directors,

Aidan Walsh

Aidan M. Walsh, P. Eng.
President & C.E.O.
April 15, 1996

areas of operation

Our exploration goal is to develop *high quality*, long life oil and gas reserves.

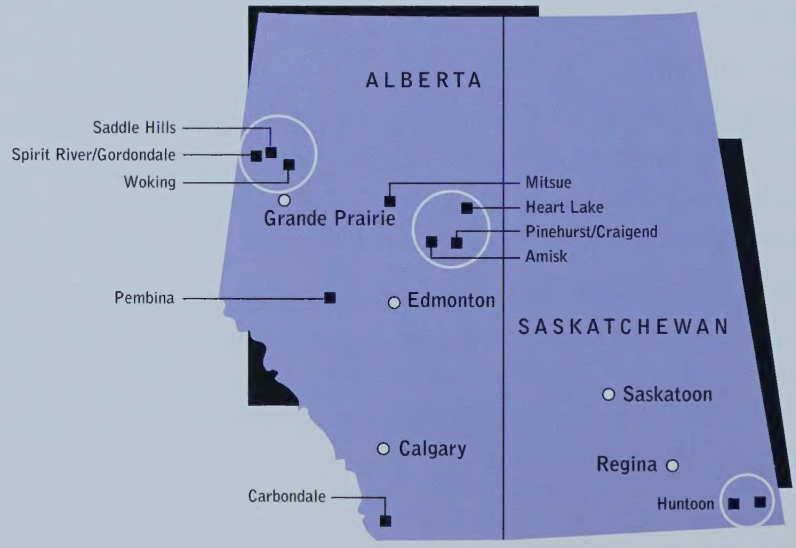
Our finding and development costs were $4.41 per barrel of oil equivalent of total proven reserves and $3.78 per barrel of oil equivalent of total proven plus half probable reserves.

Elk Point's objective in 1995 was to initiate its exploration activities in southeastern Saskatchewan and position itself with an inventory of exploration prospects on an expanded undeveloped land base. These exploration activities were balanced with acquisitions and development focused on the Company's key properties at Saddle Hills and Pinehurst in the Peace River Arch and northeast Alberta core areas respectively.

Exploration Strategy Elk Point's reserve and production base grew substantially in 1995 with finding and development costs of $4.41 per BOE of total proven reserves and $3.78 per BOE of total proven plus half probable reserves.

Elk Point boosted its total proven plus probable crude oil and NGL reserves by 541 percent to 1,552 mbbls in 1995 compared to 242 mbbls in 1994. Total proven plus probable natural gas reserves were 24.2 Bcf at year-end 1995 compared to 16 Bcf in 1994, a 51 percent increase.

AREAS OF OPERATIONS



The Company's net undeveloped land holdings increased 249 percent to 77,811 net acres in 1995 compared to 22,301 net acres in 1994.

Key components of the Company's exploration strategy are:

- internally generated prospects;
- an active land acquisition program;
- a focus on light oil and natural gas;
- exploration in areas with Crown or freehold lands available;
- pursuit of multi-zone, medium depth targets;
- participation with high working interests; and
- operatorship.

Development Strategy

The Company's oil and liquids production doubled to 123 bbls/d in 1995 compared to 61 bbls/d in 1994, while natural gas production increased 282 percent to 6,876 Mcf/d in 1995 compared to 1,800 Mcf/d in 1994. On a barrel of oil equivalent basis, Elk Point increased its production 236 percent to 810 BOEPD in 1995 compared to 241 BOEPD in 1994.

Elk Point's development strategy consists of:

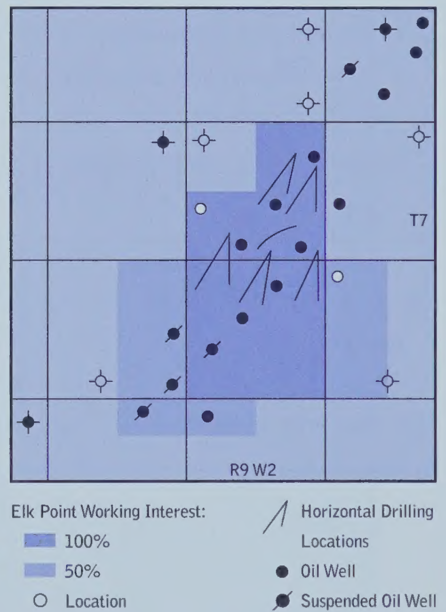
- developing core areas for operational focus;
- participating in the operatorship and ownership of oil and gas infrastructures;
- using in-house engineering, project development and marketing expertise to capitalize on niche opportunities;
- minimizing the project life cycle between initial expenditure and production;
- maintaining an inventory of medium risk projects; and
- pursuing acquisitions to entrench the Company's positions and achieve economies of scale in its core areas.

Southeastern Saskatchewan

Elk Point has five exploration prospects targeting light oil in southeastern Saskatchewan with working interests ranging from 33.33 percent to 100 percent and plans to evaluate these prospects in 1996. The Company has 4,782 net acres of undeveloped land on these prospects.

Huntoon

Elk Point's exploration initiatives were rewarded in the fourth quarter of 1995 with a significant new light oil pool discovery at Huntoon in southeastern Saskatchewan. In the fourth quarter, the Company drilled and completed four oil wells with a 100 percent working interest and a combined initial production rate of approximately 400 barrels per day. The Company operates this property and has a 100 percent working interest over the majority of the pool.



HUNTOON

This property can be optimally developed using horizontal drilling technology which will enhance both the productivity and ultimate recovery of oil from the pool. The Company has identified two vertical and six horizontal drilling locations on its lands at Huntoon for development in 1996.

To date in 1996, Elk Point has successfully drilled and completed one horizontal and one vertical well at Huntoon, contributing initial production of 500 barrels per day net to the Company.

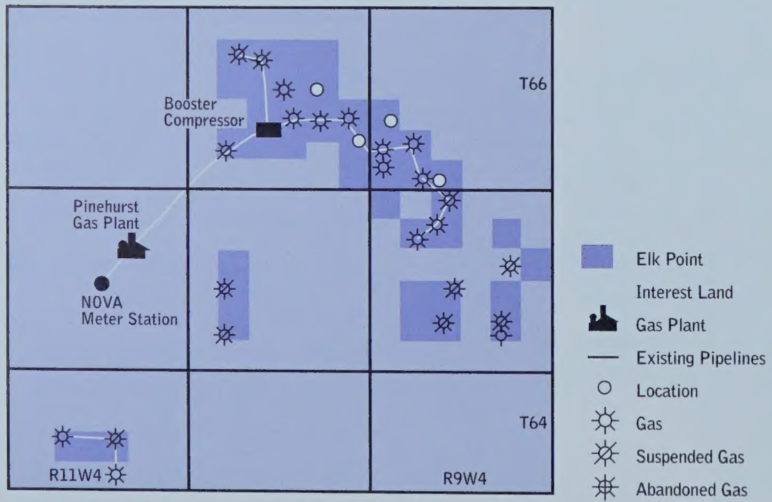
Elk Point has made an application to the Saskatchewan Energy and Mines for Good Production Practice for the Huntoon pool in order to implement and optimize its horizontal drilling program. The Company plans to build a central oil battery, flow line and water disposal system on this property in 1996 which will have a favorable impact on operating costs. A pipeline connection to the southeastern Saskatchewan crude oil pipeline transportation system will also be evaluated to reduce the cost of transporting oil to market by truck.

Elk Point markets its crude oil from Huntoon through an established crude oil marketing company generating a favorable netback price.

Northeastern Alberta

Pinehurst

Elk Point operates an extensive gas gathering and processing facility in the Pinehurst area, located approximately 100 miles northeast of Edmonton. The Company owns an interest in 58.5 sections of petroleum and natural gas rights in this area of which 17,275 net acres are undeveloped.



PINEHURST

Elk Point developed this property as a grass roots project using its internal technical expertise in project management, acquisitions, facility design and construction, exploration, drilling and completions and natural gas marketing. The central facilities were expanded in February 1995 from 3.0 to 5.5 million cubic feet per day of capacity. The Company owns a 50 percent working interest in this natural gas gathering and processing infrastructure creating an operational niche.

Early in 1995, Elk Point increased its land holdings in the Pinehurst area by negotiating a farm-in on 11.5 sections of undeveloped lands. The Company committed to drill three wells by March 31, 1996 to earn interests in 2,957 net acres of undeveloped lands. Two of the earning wells were drilled in February 1995 and were placed onstream in early March of that year. A third well was successfully drilled and completed in March 1996.

Elk Point purchased a 75 percent working interest in three shut-in gas wells and 7,200 net acres of undeveloped lands in the Pinehurst area in December 1995. Two of these

wells were tied-in in February 1996 and the Company drilled, completed and tied-in a third well on these lands during the same period.

The Pinehurst natural gas reserves are dedicated to a long term gas contract with ProGas Limited. Sales under this contract commenced in April 1995.

Elk Point has identified four seismic anomalies for future development drilling on its existing lands in this area.

Amisk

The Amisk area is located approximately 70 miles northeast of Edmonton. Elk Point operates and has working interests ranging from 67 percent to 100 percent in six producing and five shut-in gas wells and a 67.5 percent working interest in a central gas plant facility in this area. The property also includes a 66.7 percent working interest in a booster compressor and a 20.1 percent interest in a gathering pipeline which transports production from one of the wells to a third party operated gas plant at Flat Lake.

The Company identified four drilling locations on seismic anomalies on its 3,407 net acres of undeveloped lands on this property. Two of these locations were drilled in the first quarter of 1996. One well was cased as a gas well and was placed on production in late March 1996.

Peace River Arch

Saddle Hills – Sweet Natural Gas

The Saddle Hills area is located in northwestern Alberta, approximately 35 miles northeast of Grande Prairie. The Company was very active in this area in 1995 completing four acquisitions and one disposition with the goal of making this area core for natural gas exploration and production. Elk Point acquired working interests ranging from five percent to 100 percent in four producing and three shut-in gas wells and 10 producing oil wells with net production of 15 barrels per day from the Doe Creek formation. Elk Point then disposed of its light oil producing wells in the area which were non-operated with low working interests and viewed as non-strategic.

Elk Point participated in the drilling of five gross (1.7 net) wells of which three gross (0.7 net) were cased as gas wells and two gross (1.0 net) wells were dry and abandoned.

Elk Point's strategy in this area was to develop an operated sweet natural gas processing facility tied into the NOVA system to provide a base for its operations.

After completing a major acquisition of both sweet and sour gas reserves in the southern portion of Saddle Hills in October 1995, the Company saw an opportunity to develop such a facility. Elk Point applied for and received a permit to build a 7.5 million cubic feet per day sweet gas compression, dehydration and amine sweetening facility from the Alberta Energy and Utilities Board and received nominations for all of the processing capacity from its partners.

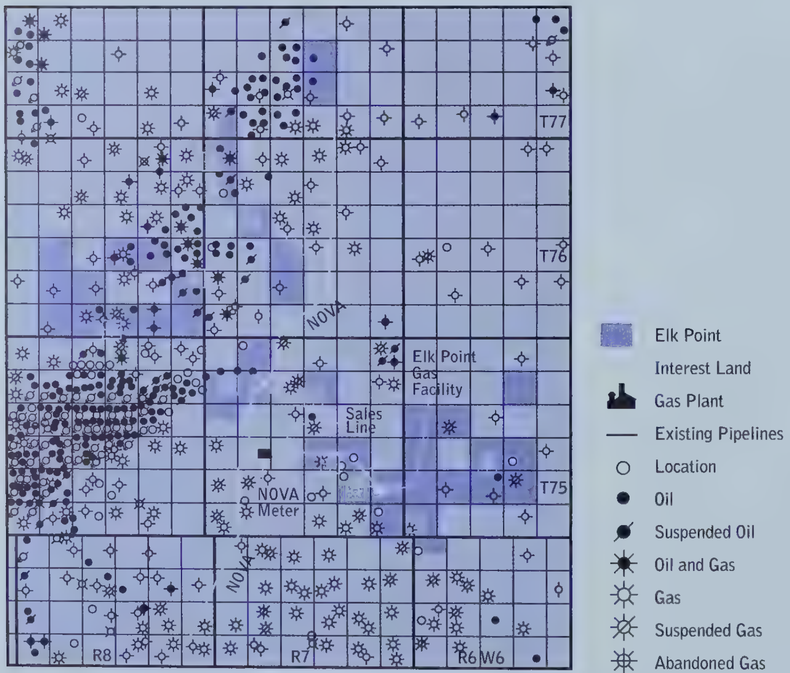
The Company commenced the design of this operated facility at year end for a proposed start-up in April 1996. Elk Point recently increased its ownership in this processing facility

from 30 percent to 70 percent as part of the acquisition of four shut-in gas wells with working interests ranging from 23 percent to 100 percent in the project area. This increases Elk Point's capacity in the facilities to 5.3 million cubic feet per day. The Company's share of initial production is expected to be 4.5 million cubic feet per day in April 1996, increasing to full capacity of 5.3 million cubic feet per day with additional drilling later in the year.

Elk Point has identified up to five drilling locations on its lands at Saddle Hills for development in 1996.

Saddle Hills – Sour Natural Gas

Elk Point has working interests ranging from 25 percent to 100 percent in four shut-in natural gas wells at Saddle Hills which are slightly sour and would require treating for removal of hydrogen sulphide. These wells, which have a net deliverability of 3.5 million cubic feet per day, require processing capacity in one of the existing major sour processing facilities in close proximity at Sexsmith or Teepee Creek.



SADDLE HILLS

Elk Point has also identified three low risk drilling locations for sour gas on its existing lands. These high quality natural gas reserves provide the Company with long term deliverability and potential for growth in 1997 and beyond.

Woking

The Woking area is located in northwestern Alberta approximately 40 miles northeast of Grande Prairie. Natural gas is produced in this area from the Paddy, Cadotte, Notikewin, Bluesky, Gething, Cadomin, Belloy and Kiskatinaw formations. Elk Point has a 25 percent working interest in the Woking gas plant which has a design capacity of five million cubic feet per day. A well in which the Company has a 13.7 percent working interest was recently tested at 4.0 million cubic feet per day and is scheduled to be placed onstream in the second quarter of 1996. The Company's share of future production from this well is estimated to be 0.4 million cubic feet per day.

Spirit River/Gordondale

The Gordondale area is located 50 miles northeast of Grande Prairie in northwestern Alberta.

In addition to net oil production of 20 barrels of oil per day from the Progress Doe Creek Unit No. 1 which is currently under waterflood, Elk Point has working interests ranging from 12.5 percent to 28 percent in four shut-in gas wells and four non-unit Gething and Doe Creek oil wells. The Company has plans to participate in the drilling of one well and the recompletion of two wells in the area in 1996.

Pembina

Elk Point has an interest in 9,768 net acres of undeveloped land in the Pembina area where the Company operates 11 exploration prospects with an average working interest of 50 percent. Elk Point plans to evaluate these prospects in the fourth quarter of 1996.

Reserves

(at December 31, 1995)	Natural Gas (Bcf)	Crude Oil & Natural Gas Liquids (Mbbls)
Proven	19.8	940.7
Probable	4.4	611.0
Total	24.2	1551.7

Undeveloped Land Holdings

(Acres)	1995	1994
Gross	**236,218**	105,815
Net	**77,811**	22,301
Average Interest	**32.9%**	21.1%

Environment

The Company is aware of the environmental risks which are inherent in its business activities. Specifically, risks include the potential pollution of the air, land and water, and the disruption of natural habitats. Elk Point is committed to protecting and maintaining the environment with respect to all corporate operations on behalf of shareholders, employees and the general public. The Company conducts its business in compliance with all provincial and federal operations and environmental regulations, and refers to the Environmental Operating Guidelines for the Alberta Petroleum Industry as a guide. The planning and due diligence exercised by the Company is evidenced by the consultative approach taken on its Pinehurst natural gas project. By conducting its operations with the protection of the environment as a priority, the Company reduces the risks associated with its activities.

Reconciliation of Changes in Company Working Interest Reserves

	Natural Gas (Bcf)		Crude Oil (Mbbls)		Natural Gas Liquids (Mbbls)	
	Proven	Probable	Proven	Probable	Proven	Probable
Reserves Dec. 31, 1994	12.8	4.1	181.1	55.3	55.3	–
Production to Dec. 31, 1995	2.5	–	43.5	–	–	–
Net Additions	9.5	0.3	831.9	597.7	27.9	–
Divestitures	–	–	61	42	–	–
Reserves Dec. 31, 1995	**19.8**	4.4	**908.5**	**611**	**32.2**	–

management's discussion and analysis

The growth exhibited by the Company *reflects our record activity levels* during the past year.

Elk Point expanded its cash flow and production base in 1995 with successful exploration, development and acquisition programs. Cash flow increased 224 percent and net earnings increased 195 percent. Finding and development costs were $4.41 per barrel of oil equivalent for total proven reserves and $3.78 per barrel of oil equivalent for total proven plus half probable reserves.

Revenues

Gross revenue from oil and gas production net of royalties was $4,277,296 in 1995 compared to $1,522,602 million in 1994. Natural gas sales averaged 6,876 thousand cubic feet per day in 1995 compared to 1,800 thousand cubic feet per day in 1994, and crude oil and natural gas liquid sales increased to 123 barrels per day in 1995 compared to 61 barrels per day the previous year.

Revenue from gathering and processing increased to $297,969 or $1.00 per barrel of oil equivalent in 1995 compared to $55,464 per barrel of oil equivalent in 1994.

Natural gas prices decreased to $1.35 per thousand cubic feet in 1995 compared to $1.64 per thousand cubic feet in 1994, tracking an overall industry decline in gas prices which was caused by high shortage levels and a warm winter season. Crude oil and natural gas liquids sales prices improved to $21.44 per barrel in 1995 compared to $18.76 per barrel in 1994.

Interest and Other Income

Interest income earned was $7,962 in 1995 compared to $11,245 in 1994. Other income was $88,475 in 1995 compared to $16,095 in 1994. The increase was largely due to a one time settlement payment from ProGas Limited.

General and Administrative Expenses

General and administrative expenses for 1995 were $710,745 compared to $366,330 in 1994. This increase is attributable to growth in the Company's technical and support staff in engineering and land and use of a geological and land consultant to pursue new opportunities in the Pembina area. On a per unit of production basis, general and administrative costs decreased to $2.40 per BOE in 1995 from $4.16 per BOE in 1994. This trend is expected to continue in 1996 as the Company's production base increases.

Royalties

Royalties, net of the Alberta Royalty Tax Credit, were $393,243 in 1995 compared to $137,116 in 1994 reflecting the Company's increased production in 1995. The Alberta Royalty Tax Credit amounted to $202,624 in 1995 compared to $107,343 in 1994.

Production Expenses

Production expenses were $1,241,749 in 1995 compared to $470,326 in 1994 reflecting the significant growth in the Company's production. On a barrel of oil equivalent basis, operating costs were $4.20 in 1995 compared to $5.35 in 1994. This improvement is a result of the Company's increased ownership and operatorship of its oil and gas production facilities which improves its ability to control its operating expenses. This trend should continue in 1996 as the Company is building an operated gas facility at Saddle Hills and an operated central oil processing and water injection facility at Huntoon, which will be its major oil and gas producing properties.

Interest Expense

Interest expense increased to $307,644 in 1995 from $60,296 in 1994 as the Company drew on its revolving production loan facility to finance development projects in its core areas.

Depletion, Depreciation and Site Restoration

The depletion and depreciation rate in 1996 was 9.2 percent compared to 5.6 percent in 1994 reflecting the significant increase in production as the Company tied-in a larger portion of its shut-in gas reserves. The depletion, depreciation and site restoration provision was $1,477,400 ($4.00/BOE) in 1995 compared to $528,000 ($6.00/BOE) in 1994. The site restoration component of this provision was $50,000 ($0.17/BOE) in 1995 compared to $13,000 ($0.15/BOE) in 1994 as a result of the Company's increased ownership of oil and gas wells.

Income Taxes

A provision of $267,600 was made for deferred income taxes in 1995 compared to no provision for deferred income taxes in 1994.

Cash Flow and Net Income

Cash flow from operations was $2,113,595 ($0.08 per share) in 1995 compared to $652,990 ($0.04 per share) in 1994, representing a 224 percent increase. The Company's weighted average number of shares was 26,270,882 in 1995 compared to 17,319,302 in 1994.

Net income increased 195 percent to $368,595 in 1995 compared to $124,990 in 1994. On a per share basis, net earnings were unchanged at $0.01.

Liquidity and Capital Resources

Elk Point expended net capital of $7,711,097 in 1995 compared to $7,656,741 in 1994. Exploration and development accounted for $2,307,647, oil and gas production facilities for $1,738,740, the acquisition of petroleum and natural gas assets for $3,998,705, land for $534,071 while $55,241 was spent on capitalized general and administrative and fixed assets. The Company received $923,307 from the disposition of one producing oil property and other minor assets. Capital expenditures in 1995 were financed by funds from operations, bank debt, the working capital of an acquired 100 percent subsidiary, and the issuance of flow-through shares. At year end, the Company had drawn $4,055,000 on its revolving production loan facility of $5,000,000. The Company funds its ongoing exploration and development activities from internally generated funds, bank debt, and the issuance of shares from treasury. When significant oil and gas property acquisitions are evaluated, all sources of financing are considered in pursuing these incremental opportunities.

Outlook

The Company has budgeted capital expenditures of $11.6 million in 1996 consisting of $7.5 million for exploration and development and $4.1 million for acquisitions. An acquisition of oil and gas assets at Huntoon and Saddle Hills will be funded by an equity financing of $6.8 million from the issue of 6.5 million Special Warrants which will be convertible to 6.5 million Class A Common Shares of the Company upon the receipt of a final prospectus in the Provinces of Ontario, Alberta and British Columbia. Capital for exploration and development activities will be financed from internally generated funds.

auditors' report to the shareholders

We have audited the consolidated balance sheets of Elk Point Resources Inc. as at December 31, 1995 and 1994 and the consolidated statements of income and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants
Calgary, Canada
March 20, 1996

management report

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies described in the notes to the financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors, appointed by the shareholders of the Company, have examined the financial statements and have expressed an opinion on the statements. Their report is included with the financial statements.

The Board of Directors of the Company has established an Audit Committee, consisting of non-management directors, to review these statements with management and the auditors. The Audit Committee has approved these statements on behalf of the Company's Board of Directors.

Aidan M. Walsh
President and Chief Executive Officer

consolidated balance sheets

December 31	1995	1994
Assets		
Current assets:		
Cash	$ 36,312	$ –
Accounts receivable	2,607,928	2,569,600
Due from officer (note 3)	22,750	22,750
	2,666,990	2,592,350
Due from officer (note 3)	–	22,750
Petroleum and natural gas properties (note 4)	16,619,172	10,335,473
	$ 19,286,162	$ 12,950,573
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ –	$ 14,646
Accounts payable and accrued liabilities	3,999,964	2,970,150
	3,999,964	2,984,796
Long-term debt (note 5)	4,055,000	2,240,000
Provision for site restoration	63,000	13,000
Shareholders' equity		
Share capital (note 6)	11,123,926	4,812,560
Shares reserved for issuance (note 6)	–	3,224,540
Retained earnings (deficit)	44,272	(324,323)
	11,168,198	7,712,777
Commitment (note 8)		
Subsequent events (note 9)		
	$ 19,286,162	$ 12,950,573

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

consolidated statements of income

Years ended December 31	1995	1994
Revenue:		
Petroleum and natural gas, net of royalties	$ 4,277,296	$1,522,602
Interest and other income	96,437	27,340
	4,373,733	1,549,942
Expenses:		
Operating	1,241,749	470,326
General and administrative	710,745	366,330
Interest on long-term debt	307,644	60,296
Depletion and depreciation	1,477,400	528,000
	3,737,538	1,424,952
Income before income taxes	636,195	124,990
Income taxes:		
Deferred	267,600	–
Net income	$ 368,595	$ 124,990
Earnings per share	$ 0.01	$ 0.01

consolidated statements of retained earnings (deficit)

	1995	1994
Deficit, beginning of year	$ (324,323)	$ (449,313)
Net income	368,595	124,990
Retained earnings (deficit), end of year	$ 44,272	$ (324,323)

See accompanying notes to consolidated financial statements.

consolidated statements of changes in financial position

Years ended December 31	1995	1994
Cash provided by (used in):		
Operations:		
Net income	$ 368,595	$ 124,990
Depreciation and depletion	1,477,400	528,000
Deferred income taxes	267,600	–
Funds from operations	2,113,595	652,990
Change in non-cash working capital	1,075,209	411,323
	3,188,804	1,064,313
Investments:		
Proceeds on sale of petroleum and natural gas properties	923,307	–
Acquisition of subsidiary	(818,766)	–
Purchase of petroleum and natural gas properties	(7,815,638)	(7,656,741)
	(7,711,097)	(7,656,741)
Financing:		
Issue of common shares for cash	4,160,299	1,900,866
Long-term debt	1,815,000	1,065,000
Issue of common shares for subsidiary company	1,799,742	–
Loan to officer	22,750	22,750
Shares reserved for issuance	(3,224,540)	3,224,540
	4,573,251	6,213,156
Increase (decrease) in cash during the year	50,958	(379,272)
Cash (bank indebtedness), beginning of year	(14,646)	364,626
Cash (bank indebtedness), end of year	$ 36,312	$ (14,646)
Funds from operations per share	$ 0.08	$ 0.04

Cash is defined as cash and bank indebtedness.

See accompanying notes to consolidated financial statements.

Years ended December 31, 1995 and 1994

1. Significant accounting policies

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and three wholly-owned subsidiaries. Effective January 1, 1996, the Company and two wholly-owned subsidiaries amalgamated to form Elk Point Resources Inc.

(b) Petroleum and natural gas properties:

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs are accumulated in a single cost centre representing the Company's activity undertaken exclusively in Canada. These capitalized costs together with production and related equipment are depleted and depreciated using the unit-of-production method based on estimated gross proven oil and gas reserves as determined by independent reservoir engineers.

In applying the full cost method of accounting, capitalized costs less accumulated depletion are restricted from exceeding a net recoverable amount equal to the estimated undiscounted future net revenues, based on current prices and costs, derived from proven reserves, less the aggregate estimated future site restoration and reclamation costs net of salvage values, development, general and administrative, financing and income tax costs plus the lower of cost and estimated fair value of unproven properties.

The unit-of-production method is used to provide for estimated future site restoration costs of producing properties and facilities.

The accounts reflect only the Company's proportionate interest in exploration and production activities.

(c) Per share data:

Per share data is calculated using the weighted average number of shares outstanding 1995 – 26,270,882 (1994 – 17,319,302) during the year. Fully diluted per share data is not presented as the exercise of share options and warrants, if such options and warrants were exercised, is not dilutive.

(d) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(e) Financial instruments:

The Company periodically enters into contracts to hedge its exposure to price declines on a portion of its petroleum production. Gains or losses on these contracts are reported as adjustments to revenue in the related production month.

2. Acquisition:

Effective August 22, 1995, the Company acquired all of the issued and outstanding shares of Bellevue Resources Ltd., a company engaged in oil and gas exploration and development, for consideration of $735,042. The acquisition has been accounted for by the purchase method and the results of operations have been included from the date of acquisition.

Assets:		
Net working capital items	$	(83,724)
Petroleum and natural gas properties		818,766
	$	735,042

Consideration:		
Issue of 4,499,344 common shares	$	1,799,742
Less: cash received from acquisition		(1,064,700)
	$	735,042

3. Due from officer:

The amount due from officer is repayable in three annual payments of $22,750 beginning in 1994, and bears interest at 5% per annum. The funds were loaned to the officer to purchase 932,500 common shares of the Company for $93,250. Interest of $1,948 (1994 – $3,156) was charged on the loan during the year.

4. Petroleum and natural gas properties:

1995	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	**$ 12,714,561**	**$ 1,299,298**	**$ 11,415,263**
Gas plant and well equipment	**5,787,953**	**625,546**	**5,162,407**
Other	**59,058**	**17,556**	**41,502**
	$ 18,561,572	**$ 1,942,400**	**$ 16,619,172**

1994	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties	$ 7,036,022	$ 333,349	$ 6,702,673
Gas plant and well equipment	3,781,381	179,495	3,601,886
Other	33,070	2,156	30,914
	$ 10,850,473	$ 515,000	$ 10,335,473

Costs of unproven properties excluded from costs subject to depletion and depreciation at December 31, 1995 were $2,970,000 (1994 – $1,670,000). The Company has capitalized general and administrative expenses during the year of $29,255 (1994 – $28,703).

5. Long-term debt:

	1995	1994
Revolving production loan facility	**$ 4,055,000**	$ 2,240,000

In 1995, the Company borrowed funds under a revolving production loan facility whereby repayments are not required provided the amounts borrowed do not exceed the lesser of $5,000,000 and an amount determined from time to time. The revolving production loan facility bears interest at bank prime rate plus 3/4% and is secured by a $7,500,000 fixed and floating charge demand debenture over all assets and a specific assignment of the Company's gas contracts.

6. Share capital:

Authorized:

Unlimited number of Class A voting common shares.

Issued:

	Number of Shares	Amount
Balance, December 31, 1993	14,781,397	$ 2,911,694
Issued for cash:		
Exercise of stock options	50,000	3,750
Exercise of Special Warrants	3,850,000	1,540,000
Pursuant to private placement	635,750	540,388
Share issuance costs	–	(183,272)

Issued: (continued)

	Number of Shares	Amount
Balance, December 31, 1994	19,317,147	4,812,560
Acquisition of subsidiary	4,499,344	1,799,742
Issued for cash:		
Exercise of Special Warrants	5,800,000	3,224,540
Pursuant to flow-through share issue net of tax benefit of flow-through expenditures of $380,518	3,300,000	1,170,482
Share issuance costs, net of deferred income taxes of $267,600	–	116,602
Balance, December 31, 1995	**32,916,491**	**$ 11,123,926**

(a) The Company has established a stock option plan whereby certain officers, directors and employees may be granted options to purchase common shares. At December 31, 1995, options held to purchase 1,974,069 (1994 – 1,539,069) common shares were outstanding with exercise prices ranging from $0.075 to $0.42 (1994 – $0.075 to $0.65). During 1995, 980,929 options were repriced from $0.65 to $0.42 per share.

(b) During November, 1995, the Company completed two flow-through share offerings whereby the Company issued a total of 3,300,000 common shares at $0.47 per common share for a total consideration of $1,551,000. The Company is committed to expend and renounce $1,551,000 in qualified expenditures. At December 31, 1995, the Company had incurred $853,755 of expenditures. Subsequent to year end, the Company incurred the rest of the expenditures.

(c) In November, 1994, the Company issued 5,800,000 Special Warrants at an issue price of $0.60 per Special Warrant. Each Special Warrant will entitle the holder to acquire one Class A common share of the Company at no additional cost. During 1995, the Special Warrants were exercised and common shares were issued.

(d) On March 14, 1994, the Company entered into an agency agreement to issue 3,850,000 Special Warrants at a price of $0.40 per Special Warrant for total consideration of $1,500,000 before an agent's commission of $92,400 and expenses of $36,512. Each Special Warrant was to be converted into one common share of the Company upon the earlier of a) the qualification of such shares for distribution pursuant to a prospectus; or b) March 30, 1995. The Special Warrants were exercised on June 10, 1994.

7. Income taxes:

The provision for income taxes varies from the amounts that would be computed by applying the statutory Federal and Provincial income tax rates aggregating 44.6% (1994 – 44.3%) to income before income taxes. Income taxes have been computed as follows:

	1995	1994
Computed "expected" tax provision	$ 283,500	$ 53,300
Crown royalties	267,800	108,300
Alberta royalty tax credit	(89,800)	(47,000)
Resource allowance	(167,700)	(63,500)
Non-tax base depletion	14,100	–
Utilization of prior years' losses	(40,300)	(51,100)
	$ 267,600	$ –

Petroleum and natural gas properties with a net book value of $472,696 have no cost basis for income tax purposes. The difference arises from the issuance of flow-through shares.

8. Commitment:

The Company is committed under operating leases for the rental of its premises as follows:

1996	$ 80,802
1997	58,731
	$ 139,533

9. Subsequent events:

(a) Subsequent to year end, the Company entered into an underwriting agreement to issue and sell up to 6,500,000 Special Warrants for $6,825,000 exchangeable on a one-for-one basis for common shares upon regulatory approval, before reflecting the Agent's fee and costs of issue.

(b) Subsequent to year end, the Company has entered into an agreement to purchase certain oil and gas properties for cash of approximately $4,150,000.

(c) Subsequent to year end, the Company granted 265,000 stock options to certain officers, directors and employees to purchase common shares at $.64 per share expiring January 11, 2001.

Directors

Donald R. Jepson
President
Jepson Resource Management Ltd.

Peter M.S. Longcroft
Chairman
Sterling Capital Group Ltd.

Rodger A. Tourigny
President
Tourigny Management Ltd.

Aidan M. Walsh
President & Chief Executive Officer
Elk Point Resources Inc.

Management and Officers

Aidan M. Walsh
President & Chief Executive Officer

Donald R. Jepson
Chairman & Chief Financial Officer

Troy K. Brazzoni
Vice-President, Exploration

Brian J. Goodfellow
Vice-President, Production and Operations

Twyla Paget-Turcotte
Manager, Accounting

William DeJong
Secretary

Legal Counsel

Ballem McDill MacInnes Eden
Blake Cassels & Graydon

Corporate Office

2020, 355 - 4th Ave. S.W.
Calgary, Alberta T2P 0J1
Telephone: (403) 264-1358
Fax: (403) 261-8702

Transfer Agent & Registrar

The R-M Trust Company
Calgary, Alberta

Auditors

KPMG Peat Marwick Thorne
Calgary, Alberta

Banking

Alberta Treasury Branches

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: ELK

Abbreviations

Bbls	*Barrels*
Bbls/d	*Barrels per day*
Mbbls	*Thousands of barrels*
BOPD	*Barrels of oil per day*
Mcf	*Thousand cubic feet*
Mmcf	*Million cubic feet*
Mmcf/d	*Million cubic feet per day*
Bcf	*Billion cubic feet*
BOEPD	*Barrels of oil equivalent per day*
BOE	*Barrels of oil equivalent*
GJ	*Gigajoules*
API	*American Petroleum Institute*

the management team

committed *to our*
strategic plan

Energized in our approach
Decisive in our actions

Left to right:
Brian J. Goodfellow
Twyla Paget-Turcotte
Troy K. Brazzoni
Shelley Cooper
Aidan M. Walsh
Janie-Rae Hourie
Francine VanderGriendt

Designed and Produced by Parallel Strategies Inc.

Elk Point Resources Inc.
2020, 355 - 4th Avenue S.W.
Calgary, Alberta T2P 0J1

Printed in Canada